PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 6364 – *AN ACT CONCERNING THE SUNSET DATE FOR PERSONAL RISK INSURANCE RATE FILINGS AND LIMITING RATE INCREASES IN CERTAIN CIRCUMSTANCES*

COMMITTEE ON INSURANCE AND REAL ESTATE

February 24, 2011

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H.B. 6364, which would extend the state's flex rating law until July 1, 2013 and would prohibit insurers from seeking rate increases in excess of six percent under certain circumstances. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI members represent 37 percent of the total property/casualty insurance market and 39 percent of the total personal lines insurance business in the nation. PCI member companies provide 46 percent of Connecticut's personal lines insurance coverage.

PCI strongly supports Section one of H.B. 6364 which would extend Connecticut's flex rating law for two years until July 1, 2013. Flex rating has been a sound step toward regulatory modernization in Connecticut which has worked to increase competition, contain premium growth and benefit consumers. Looking at the experience with auto insurance, for example, since the flex rating law has been in effect auto insurance premiums have been flat even though loss costs have been increasing. During this period, even though auto insurance loss costs increased by 10.8%, average premium remained flat. This is true because under flex rating, insurers are more inclined to contain premiums because they know that they will be able to increase them within the flex band if they need to in the future. Flex rating also facilitates competition and competition drives down premiums.

Currently, 38 states and the District of Columbia have flex rating or laws that are less restrictive than flex rating in place. While most of these states have operated this way for many years, 11 states (Alaska, Connecticut, Georgia, Massachusetts, Nebraska, New Mexico, New York, North Dakota, Oklahoma, Rhode Island, and Texas) modernized their personal auto and/or homeowners insurance rate regulatory systems within the last decade. Flex rating was an important step forward for Connecticut on the regulatory modernization front and to allow this law to sunset would be not be positive for Connecticut's insurance market or consumers.

While PCI strongly supports Section one of this legislation, we are strongly opposed to Section two of this legislation. Section two of this bill would prohibit insurers who stop writing new policies in a particular line from filing for a rate increase of more than six percent for such line. Under current law, rate increases of more than six percent are required to be filed with and reviewed and approved by the Insurance Department. By prohibiting increases beyond six percent, this bill could result in a situation where rates are inadequate which is prohibited under current Connecticut law (C.G.S. 38a-686) and could result in market instability and raise solvency concerns.

Connecticut currently has a competitive personal lines market and if an insurer needs to seek a rate increase beyond six percent, then consumers are free to shop around and seek a more favorably priced policy. If this law were to pass, it would send the wrong message to insurers who may be considering entering the Connecticut market. No insurer will enter a market if they know that their solvency might be jeopardized if they need to stop writing a particular line in the future. Less insurers entering the market means fewer choices for Connecticut consumers when shopping for insurance.

For the foregoing reasons, PCI urges your Committee to remove Section two of this bill and favorably advance HB 6364.